


ORCHAN MINES LIMITED

ANNUAL REPORT 1973



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ORCHAN MINES LIMITED

HEAD OFFICE: Suite 4500, Commerce Court West,
Toronto, Ontario M5L 1B6

MINE OFFICE: Matagami, Quebec

DIRECTORS

J. P. DOLAN

MICHEL C. DUMAS

W. S. ROW

D. E. G. SCHMITT

J. H. STOVEL

OFFICERS

J. P. DOLAN	-	-	-	-	-	-	-	<i>Chairman</i>
D. E. G. SCHMITT	-	-	-	-	-	-	-	<i>President</i>
J. H. STOVEL	-	-	-	-	-	-	-	<i>Vice-President</i>
R. C. ASHENHURST	-	-	-	-	-	-	-	<i>Secretary</i>
E. K. CORK	-	-	-	-	-	-	-	<i>Treasurer</i>
B. C. BONE	-	-	-	-	-	-	-	<i>Assistant Treasurer</i>
V. H. K. SCOTT	-	-	-	-	-	-	-	<i>Comptroller</i>
M. SLACK	-	-	-	-	-	-	-	<i>General Manager</i>

TRANSFER AGENT AND REGISTRAR: THE STERLING TRUSTS CORPORATION, Toronto, Ontario

ANNUAL MEETING: May 1, 1974, 11:30 a.m. Toronto Time, Royal York Hotel, Toronto, Ontario

DIRECTORS' REPORT TO THE SHAREHOLDERS

The 21st Annual Report includes the consolidated balance sheet as at December 31, 1973, a consolidated statement of operations for the year 1973, and the report of the auditors. A report from the Mine Manager, Mr. J. W. Jordan, summarizing the progress of operations and development at the minesites of Orchan and the subsidiary, Bell Allard Mines, is also included.

Four interim dividends, each of 10¢ per share, were paid. To date a total of \$13,062,248, or \$2.15 per share, has been paid in dividends and a further 10¢ has been declared payable March 18 to shareholders of record February 15.

The tonnage and grades of ore produced from the Orchan mine were substantially lower than for 1972 but revenue from metals and concentrates was higher by \$2.5 million, again due to much improved prices for metals contained in the concentrates produced, and because of additional production from the new Garon Lake Mine which was exempt from income tax until Jan. 1, 1974. The combined tonnages of zinc concentrates from the two mines were supplemented with some 17,000 tons of purchased zinc concentrate to fulfil Orchan's 18¾ % portion of the requirements for the zinc reduction plant at Valleyfield, Quebec. The total production of copper concentrates shipped to the smelter at Noranda, Quebec was 2,757 tons more than in the preceding year. Capital expenditures on new projects were higher and net income was increased by \$1.1 million to \$4,433,000.

A change was made in accounting for taxes to a method considered more appropriate to changing circumstances. Taxes are now provided for on a tax allocation basis rather than on a taxes payable basis as was the previous practice. The new method did not significantly affect net earnings which were 73¢ per share as compared to a restated 55¢ for 1972.

The better grade ore reserves in the main mine are in scattered remnants and pillars which require labour intensive methods for extraction. The shortage of skilled miners, which has been an industry-wide problem in recent years, reduced production from those areas. Programs to improve productivity in 1974 have been implemented. Work to explore for and develop additional ore reserves will continue to receive a high priority.

GARON LAKE DIVISION

Production from this new highly mechanized operation was 181,700 tons of ore and the reserves of 328,850 tons at year-end were some 66,100 tons lower than 12 months earlier. Additional trucking equipment will enable mining to a lower elevation and thereby extend the development of narrow lenses of ore.

NORITA DIVISION

The erection of a mining plant to sink a shaft in preparation for production by 1976 required the expenditure of \$1,653,000 and is within budget but some months behind schedule. Progress lagged because contractors were unable to hire skilled labour in sufficient numbers.

BELL ALLARD MINES — RADIORE NO. 2 DIVISION

Improved prices for copper prompted the expenditure of \$279,000 to prepare the small deposit of copper ore for production to begin late 1974. The orebody is about one mile from the Garon Lake plant and concurrent production from the two properties will minimize the operating costs.

CANADIAN ELECTROLYTIC ZINC

The zinc reduction plant operated at capacity and produced 148,800 tons of zinc and 598,000 pounds of cadmium.

The rated capacity of the plant is being expanded from 400 to 620 tons per day. Shortages of a wide range of construction materials have caused delays but the new capacity is expected to come on stream by mid-1975. Construction costs are escalating rapidly and the cost of the project will be substantially higher than the original estimate.

St. Lawrence Fertilizers operated at capacity throughout the year and produced a record 105,000 tons of fertilizers. Improved prices, together with high operating rates, resulted in a modest profit. Recent process improvements should increase 1974 production by 10% and, although the costs of raw materials continue to increase, higher prices should maintain current profit levels. The plant consumed 119,000 tons of sulphuric acid, a by-product from Canadian Electrolytic Zinc's roasting operation.

ZINC

Western world zinc metal production, which increased to capacity output in 1972, continued at maximum rates throughout 1973. This was insufficient to meet demand which rose 10%. The resulting shortfall was covered by 120,000 tons from producer stocks and 267,000 tons from the U.S. stockpile.

Action by the lead and zinc producing industry in the United States for increased tariff and quota protection on imports of lead and zinc metal and lead concentrate was not considered by the United States Congress in 1973 but this continues to be a threat for Canadian zinc shipments to the United States.

U.S. prices rose from 18½¢ per pound to 20¼¢ by April but were frozen under price controls until December when they increased to 28¢-32¢. In Canada the price moved in 5 stages from 19½¢ in January to 31¢ in December. Overseas, the producer price basis increased in several steps from 18.4¢ in January to 32.1¢ in November.

COPPER

Copper consumption in the Western World was up 10% over 1972. As refined production only increased 3% due to production delays, strikes, and other interruptions, supplies were tight and prices rose sharply.

The London Metal Exchange quotation increased from 48¢ per pound in January to a record high of \$1.20 in December and eased to 90¢ early this year following release of 210,000 tons of copper from the U.S. strategic stockpile and anticipated lower demand in 1974. The U.S. producers' price increased three times in the first quarter from 50½¢ to 60¢ where it was held under Phase IV price controls until December when it was permitted to rise to 68¢. In Canada the price paralleled the United States price until July when the Canadian price increased to 67¢ and to 74¢ in October.

GENERAL

With declining ore reserves at the main mine, the satellite operations become increasingly important. At the Garon, Norita and Radiore projects all planning, engineering and project management was done by Orchan employees. During a period of critical manpower shortages, rising capital costs, and until recently low metal prices, these projects were feasible only on the basis of efficient, cost controlled and productive performance. In that way Orchan has endeavoured to maximize the utilization of the Matagami area resources.

Your Directors wish to record their appreciation of the significant contributions made by the Manager, staff and all employees towards the success of the company during the year.

On behalf of the Board,

J. P. DOLAN,
Chairman.

D. E. G. SCHMITT,
President.

Toronto, Ontario,
February 6, 1974.

MINE MANAGER'S REPORT

To the President and Directors:

This report summarizes operations at the minesites for the year ended December 31, 1973.

PRODUCTION

Ores produced from the Orchan Mine and from the Garon Lake Division were treated separately in the Orchan concentrator at average rates which totalled 1,234 tons per day. Some 270,100 tons of ore from the Orchan mine were milled with grades averaging 7.39% zinc and 0.97% copper. Metal recoveries in concentrates were 87.53% and 78.93% respectively. An additional 180,130 tons of Garon Lake ore averaging 3.53% zinc and 1.45% copper was treated separately and intermittently, utilizing the separate custom circuit when necessary, for recoveries of 72.79% and 83.51% respectively.

Consolidated production statistics for the past two years are:

		1973	1972
Ore treated	— dry tons	450,230	376,840
Zinc concentrate	— dry tons	40,936	67,250
Zinc contained in concentrate	— pounds	43,706,000	72,398,990
Copper concentrate	— dry tons	16,787	14,030
Copper contained in concentrate	— pounds	8,496,110	6,486,140
Silver contained in concentrate	— ounces	93,993	208,575
Gold contained in concentrate	— ounces	1,210	1,158

ORE RESERVES — January 1, 1974

Total proven ore reserves at the Orchan Mine and at the Garon Lake Division declined by 363,535 tons to:

	Tons	% Zinc	% Copper	Ounces/Ton Silver	Ounces/Ton Gold
Orchan Mine	1,599,745	8.7	1.2	0.9	0.01
Garon Lake Division	328,850	1.5	1.8	0.3	0.01
Total and combined average grades	1,928,595	7.5	1.3	0.8	0.01

ORCHAN MINE

Underground advances were:	1973	1972	To Date
Exploration and development — feet	928	1,825	42,325
Stope preparation — feet	8,967	6,236	59,946
Total advance — feet	9,895	8,061	102,271
Diamond drilling — feet	12,712	25,385	315,936

GARON LAKE DIVISION

Production from the stopes in two small lenses of ore commenced at scheduled rates in January 1973.

Mine development and stope preparation work totalled 9,836 feet of advance and 9,926 feet of diamond drilling.

3,817 feet of surface drilling tested several weak geophysical conductors but no ore sections were encountered.

NORITA DIVISION

Site preparation has been completed and a mining plant erected. The shaft was collared and sinking to a depth of 1,600 feet will begin in March 1974. Drill indicated reserves remained at 1,637,000 tons averaging 7.6% zinc and 0.7% copper, without allowance for dilution in mining.

BELL ALLARD MINES LIMITED

Results from two surface diamond drill holes totalling 1,806 feet, on the south group of claims, were negative.

RADIORE #2 DIVISION (of Bell Allard Mines Limited)

Preparations were made to develop 139,400 tons of drill indicated ore averaging 2.2% copper and 1.1% zinc for production in late 1974. The access road was completed, mining equipment installed and a 17% ramp decline advanced 200 feet.

AREA EXPLORATION

Orchan participated with Noranda Exploration Company Limited in an exploration program on the Bell Channel group of claims between the Norita and Geron Lake properties. Twelve surface diamond drill holes totalling 8,735 feet were completed with no significant ore intersections. Additional work is planned.

GENERAL

The labour turnover and absentee rate were high and the acute shortage of experienced miners has had an adverse effect on production targets.

Twelve dwelling units were purchased to provide additional accommodation for employees.

I wish to express my appreciation to the Department Heads, Messrs. L. Gendron, J. J. Bell, D. Thornham, F. G. Stokoe, and to all employees for their services throughout the year.

Respectfully submitted,

J. W. JORDAN,
Manager.

Matagami, Quebec,
February 5, 1974.

ORCHAN MINES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1973

(with comparative figures at December 31, 1972)

1973

1972

ASSETS

Current assets

Cash and short-term deposits	\$ 2,891,560	\$ 3,932,050
Marketable investments, at cost (quoted market value \$3,444,000 in 1973; \$3,080,000 in 1972)	3,079,084	2,880,393
Accounts receivable	77,594	65,954
Metals and concentrates on hand, in transit or due for settlement — at estimated net realizable value	6,180,657	4,612,769
Stores and prepaid expenses — at cost	339,620	336,225
Total current assets	12,568,515	11,827,391

Taxes recoverable (note 4)	286,355	286,355
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Investments in and advances to other companies (note 2)	1,696,978	1,544,644
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Fixed assets — at cost

Land, buildings and equipment —		
Mine site	10,733,623	9,833,361
Zinc reduction plant	6,038,272	6,245,731
	16,771,895	16,079,092
Less accumulated depreciation	12,401,459	11,626,905
	4,370,436	4,452,187
Mining properties and claims — at cost less amounts written off	1,164,338	1,181,443
Projects under construction	2,205,430	654,117
Net fixed assets	7,740,204	6,287,747

Preproduction and deferred development expenditures —

at cost less amounts written off	1,140,690	1,202,372
	<u>\$23,432,742</u>	<u>\$21,148,509</u>

LIABILITIES

Current liabilities

Accounts payable	\$ 1,155,887	\$ 653,348
Taxes payable (note 4)	703,973	939,038
Total current liabilities	1,859,860	1,592,386

Deferred taxes (note 3)	1,522,000	1,470,000
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Due on mining properties (note 5)	1,020,000	1,065,000
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Shareholders' equity

Capital stock —		
Authorized:		
6,500,000 shares of \$1 each		
Issued:		
6,058,720 shares	6,058,720	6,058,720
Less net discount	2,613,750	2,613,750
	3,444,970	3,444,970
Retained earnings	15,585,912	13,576,153
Total shareholders' equity	19,030,882	17,021,123
	<u>\$23,432,742</u>	<u>\$21,148,509</u>

On behalf of the Board:

J. P. DOLAN, Director.

D. E. G. SCHMITT, Director.

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Revenue — from metals and concentrates	\$15,957,092	\$13,429,707
Expenses		
Cost of production	8,263,196	6,801,053
Administrative expense	162,764	139,895
Depreciation	978,498	773,420
Amortization of mining properties, preproduction and deferred development	675,182	379,325
	<u>10,079,640</u>	<u>8,093,693</u>
Operating income	5,877,452	5,336,014
Investment income	385,795	230,840
Income before provision for taxes	6,263,247	5,566,854
Provision for tax (notes 3 and 4):		
Current	1,778,000	2,100,964
Deferred	52,000	150,000
	<u>1,830,000</u>	<u>2,250,964</u>
Net income	4,433,247	3,315,890
Retained earnings		
As originally reported	15,046,153	14,003,751
Effect on prior years of change to tax allocation basis (note 3)	1,470,000	1,320,000
As restated	<u>13,576,153</u>	<u>12,683,751</u>
Dividends	2,423,488	2,423,488
Closing balance	<u>\$15,585,912</u>	<u>\$13,576,153</u>
Earnings per share (note 3)	<u>73¢</u>	<u>55¢</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Working capital, beginning of year	\$10,235,005	\$ 8,911,460
Source of funds		
From operations —		
Net income	4,433,247	3,315,890
Add charges not requiring an outlay of funds:		
Depreciation	978,498	773,420
Amortization	675,182	379,325
Deferred taxes	52,000	150,000
Loss on disposal of fixed assets	105,676	—
	<u>6,244,603</u>	<u>4,618,635</u>
Application of funds		
Fixed assets — mine sites	1,819,879	149,025
— zinc reduction plant	730,721	274,640
Deferred preproduction and development	584,156	441,620
Purchase of mining property, net of amount due	15,375	10,000
Increased (decrease) in investments and advances	152,334	(3,683)
Maturity on Long-term debt	45,000	—
Dividends paid	2,423,488	2,423,488
	<u>5,770,953</u>	<u>3,295,090</u>
Net increase in working capital	473,650	1,323,545
Working capital, end of year	\$10,708,655	\$10,235,005

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1973

1. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The Company has interests in unincorporated joint ventures and these are included in the financial statements on a line-by-line basis.
2. In 1973 investments in and advances to other companies are carried at cost adjusted by the Company's equity in income or losses since the date of investment (in prior years they were carried at cost less amounts written off). As the effect of the change to the equity basis on the current or prior years' earnings was not material it has not been recorded retroactively.
3. During 1973 the Company changed from recording income and production taxes on a taxes payable basis to recording them on a tax allocation basis. This change added \$52,000 to the 1973 provision for taxes. The comparative figures have been restated to reflect the new basis of accounting.
4. (a) Bell Allard Mines Limited, a subsidiary, applied to the Department of National Revenue for a three year exemption for income taxes commencing April 1, 1968. The application has not been granted on the ground that Bell Allard's open pit is an extension of the Orchan mine; however, the directors of Bell Allard dispute this and that company has filed its income tax returns claiming the exemption.

If, ultimately, Bell Allard does not receive the three year exemption, shareholders' equity will be reduced by income taxes and accrued interest aggregating approximately \$1,120,000 which will be payable but have not been provided for in the accounts. Provision for the 1973 accrued interest included in this sum would have reduced earnings per share by 1¢ (1¢ in 1972). Payments aggregating \$286,355 on income tax assessments, which are being appealed, are shown as non-current income taxes recoverable.

(b) The Garon Lake mine commenced production during the year and the Company has applied to the Department of National Revenue for the new mine exemption from income taxes to December 31, 1973. The Company expects the application to be approved and accordingly income taxes otherwise payable of \$560,000 have not been provided for in the accounts.
5. With respect to the long-term liability for amounts due on mining properties, \$990,000 is payable proportionately to production of the first 2,000,000 tons of ore from a mine now being developed and scheduled to come into production in 1975. Other long-term liabilities in the amount of \$30,000 are payable in 1975.
6. Capital outlays over the next three years are expected to be approximately \$8.1 million, of which \$5 million will be spent in 1974.
7. Statutory information — total remuneration paid in 1973 to directors of the Company consisted of directors' fees of \$4,067. Total remuneration of the five highest paid employees of the Company (who are not directors or officers) was \$87,145 and pension benefits totalled \$7,033.
8. In 1963 an action was commenced in the Superior Court of Quebec in which the Plaintiff requested the Court to declare the nullity of the mining concession and the patent therefor issued to Orchan Mines Limited (comprising the whole of the Orchan mining property) and to declare valid and legal the staking by him of certain mining claims covered by this mining concession. The Company thereupon filed a defence and Inscription in Law, and since that time no further proceedings have been made by the Plaintiff. In the opinion of the Company's solicitors, the action is ill founded.
9. Certain comparative figures have been reclassified to conform with the method of presentation adopted in 1973.

AUDITORS' REPORT

To the Shareholders of
Orchan Mines Limited:

We have examined the consolidated balance sheet of Orchan Mines Limited and its subsidiaries as at December 31, 1973, and the consolidated statements of operations and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the possible additional liability for income taxes as explained in note 4, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year, after giving retroactive effect to the change to tax allocation accounting explained in note 3 to the consolidated financial statements.

Toronto, Canada,
February 5, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants.

